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California's Deepening Housing Crisis

High Demand/Low Supply: California continues to experience very high rates of population growth and further tightening of its housing markets. Even encompassing the recession of the early 1990s, California's population grew by an average approximating 450,000 people annually and is projected to gain around 600,000 annually over the next decade.¹ As of January 1, 2004, California's population was 36,144,000 which increased by 532,000 people in 2003. The new population reflects a 1.5 percent increase over 2003. This is just under the 1.6 percent growth rate experienced in calendar year 2002 when the State added 563,000 residents. Since 2000, net migration slightly exceeds natural increase in California; however, in the last two years natural increase contributed a larger share of the annual population growth.²

Housing production has not kept pace with the State's housing needs, particularly in the coastal metropolitan areas and housing need has worsened, especially for renter households and low income owner households throughout the State. During the 1980s, 2.1 million units were built whereas the 1990s saw only 1.1 million units built. While the average annual need is projected at approximately 220,000 housing units, construction has lagged substantively below the need. Since 1999, less than 170,000 residential new construction permits have been issued each year. During 2004, 201,000 new homes and apartments are projected to be built, representing the highest production since 1989.³

The greatest production gap is in multifamily housing. Multifamily development only accounted for approximately a quarter of all new units during the 1990s, a drop of nearly 70 percent from the levels of the 1980s. Since 2000, the number of multifamily units has increased slightly, totaling approximately 28 percent of all new units constructed.⁴

Increasing Housing Costs/Decreasing Homeownership: California's homeownership rate is the third lowest in the nation (58.9%) and 10 percent lower than the national homeownership rate (68.3%).⁵ Only 18 percent of California's households could afford to buy the median priced single-family home in July 2004, while nationwide, affordability was 53 percent. The California Association of Realtors reported July 2004's median price of an existing, single-family detached home in California increased to \$463,540, breaking the \$400,000 mark for the second time, representing a 21.4 percent increase over July 2003's median price of \$381,940. The disparity between housing production and need has resulted in double-digit year-to-year percentage increases in the median price over recent years.⁶

¹ State of California, Department of Finance, Population Projections by Race/Ethnicity for California and Its Counties 2000–2050, Sacramento, California, May 2004.

² State of California, Department of Finance, E-1 City/County Population Estimates, with Annual Percent Change, January 1, 2003 and 2004. Sacramento, California, May 2004.

³ Construction Industry Research Board, California Construction Review, August 20, 2004.

⁴ Ibid

⁵ US Census Bureau, Housing Vacancies and Homeownership Annual Statistics, 2004.

⁶ California Association of Realtors, Press Release, September 9, 2004.

Following is a comparison of several county and community median home prices reported for the second quarter of 2004 and 2003 to reflect regional differences in the State.⁷

County	Median Price			Community	Median Price		
	2004	2003	Change		2004	2003	Change
Fresno	\$203,500	\$160,000	27.2%	Fresno	\$196,000	\$152,500	28.5%
Kern	\$163,000	\$130,000	25.4%	California City	\$128,000	\$91,250	40.3%
Orange	\$515,000	\$394,500	30.5%	Newport Beach	\$1,075,000	\$800,000	34.4%
Monterey	\$485,000	\$374,500	29.5%	Pacific Grove	\$680,000	\$565,000	20.4%
Sacramento	\$299,000	\$247,000	21.1%	Folsom	\$394,750	\$322,750	18.6%
San Diego	\$450,000	\$366,500	22.8%	Encinitas	\$721,000	\$575,000	25.4%
San Mateo	\$639,000	\$560,000	14.1%	Pacifica	\$593,500	\$494,500	20.0%
San Luis Obispo	\$430,000	\$372,000	15.6%	Atascadero	\$379,000	\$308,000	23.1%
Sonoma	\$440,000	\$365,000	20.5%	Petaluma	\$500,000	\$409,000	22.2%

Rent/Wage Gap/Tight Housing Markets: California is second only to Massachusetts in terms of the hourly wage needed to afford a two bedroom apartment at the fair market rate. In California, an extremely low income household (earning \$18,352, 30% of the Area Median Income of \$61,174) can afford monthly rent up to \$459, while the Fair Market Rent for a two bedroom unit is \$1,101. A worker earning minimum wage (\$6.75 per hour) must work 126 hours per week in order to afford the average two-bedroom unit. The Housing Wage in California is \$21.18, meaning this is the amount a full time (40 hours per week) worker must earn per hour in order to afford the average two-bedroom unit, and is more than three times (314%) the minimum wage (\$6.75 per hour). Between 2002 and 2003, the two bedroom housing wage increased by 7.6%.⁸

One of the main factors that accommodated the housing shortfall in the 1990s was a reduction in both homeowner and rental vacancy rates, demonstrated by the significant drop in vacancy rates between 1990 and 2001. The homeowner vacancy rate decreased from 1.8 percent to 1.2 percent, while the rental vacancy rate decreased from 6.0 percent to 5.4 percent during the same time period.⁹ Vacant units were used to absorb a significant amount of the housing demand during the later half of the 1990s, resulting in extremely tight housing markets limiting mobility in many populous metropolitan areas; an option that is no longer available to help address California's housing shortage.

Overcrowding: Between 1980 and 1990, the percentage of overcrowded households nearly doubled from 6.9 percent to 12.3 percent. Census 2000 reports more than 15 percent of California households were overcrowded with overcrowding most common among low-income households, and most prevalent in renter housing. Roughly 24 percent of renter households statewide were overcrowded; in some counties, nearly a third of renter households are overcrowded. One quarter of all overcrowded renter households contained more than one family. Of all owner and renter overcrowded households, estimates are that more than half are severely overcrowded (more than 1.5 persons per room). Overcrowding increases health and safety concerns and stresses the condition of the housing stock and infrastructure.

⁷ *TRENDS: In California Real Estate*, California Association of Realtors, August 2004.

⁸ *Out of Reach 2003: America's Housing Wage Climbs*; National Low Income Housing Coalition.

⁹ U.S. Census Bureau, *Housing Vacancies and Homeownership Statistics 2002*; *Homeowner and Rental Vacancies by State 1986 to 2003* (Tables 3 and 4).

Homeless: Although reliable counts of homeless persons are illusive, in 1997, 360,000 Californians were estimated to be homeless.¹⁰ In the worst circumstances, homeless persons live in places not meant for human habitation including cars, parks, sidewalks, stairwells, or door stoops. It is estimated there are 80,000 to 95,000 homeless children in California, making the percentage of homeless children greater today than at any time since the Great Depression.¹¹

Farmworkers: Employment in California agriculture increased 22 percent between 1985 and 2000. As of September 2000, California farm employment peaked at 486,000.¹² California's total farmworker population (including family members) is estimated to exceed 900,000. Approximately 60 percent of farmworkers are accompanied by a spouse, child or parent. The median number of children in families of farmworker parents is two.¹³ Farmworkers and their families cope with substandard housing conditions fraught with serious health and sanitation problems. To avoid harassment, they often live out of sight in undeveloped canyons, fields, squatter camps, and back houses.

Privately owned employee housing (licensed by California) has been steadily diminishing. In 1976, employers owned 1,254 employee housing developments sheltering an estimated 45,000 farmworkers and household members, while by 2000, there were only approximately 1,000 licensed employee housing developments with capacity for 23,000 farmworkers and household members.

Preservation of At-Risk Units: One of California's foremost housing problems is the potential loss of affordability restrictions on a substantial portion of the government-assisted rental housing stock estimated to house more than 375,000 persons. The risk of owners converting units with subsidized rents for market-rate rents is greatest in the State's highest cost rental markets and is both immediate and continuing beyond 2010. In California, the number of federally assisted units approximates 150,000.¹⁴ California's experience with market-rate conversion of the older-assisted stock suggests that unless new incentives are created to retain Section 8 assistance, 15 to 20 percent of owners of Section 8 inventory are likely to opt-out and terminate their relationship with HUD. Due to tight rental markets in many parts of California, the State has had a level of prepayment and conversion among older-assisted HUD properties that is triple the amount of any other State.

Growing Income Inequality: While housing prices have been escalating, numerous studies have documented a widening gap in earnings reported by low-income versus high-income households throughout the nation. The share of reported earned income attributable to the top 20 percent of taxpayers has been rising whereas it has been falling for the bottom 80 percent.¹⁵

Escalating Affordability Problems

- In 2000, 465,340 families were on waiting lists for public housing and rental subsidies in 20 local jurisdictions; only about 130,000 families now live in existing public housing or receive federal tenant-based subsidies in these same 20 jurisdictions. At the rate of two children in each family waiting for housing, almost a million children are on California's housing waiting lists.¹⁶

¹⁰ *California Housing Markets 1990-1997*, State Housing Plan Update, State of California Department of Housing & Community Development, 1998.

¹¹ California Housing Law Project, Facts and Issues; Homeless Children; www.housingadvocates.org/default.asp?ID=170

¹² http://migration.ucdavis.edu/rmn/rural_data/housing/housing.html

¹³ *California's Housing Markets 1990-1997*; California Department of Housing & Community Development, January 1999.

¹⁴ California Housing Partnership Corporation, June 2003.

¹⁵ *California's Changing Income Distribution*, Office of the Legislative Analyst, State of California, August 2000.

¹⁶ "The Long Wait, The Critical Shortage of Housing in California," K. Williams, Corp. for Supportive Housing, June 2000.

- California's tight rental markets are exacerbated by loss of existing affordability controls. Since the 1990's, thousands of federally-assisted privately-owned rental housing developments have terminated their affordability restrictions. Since 1996, California has lost more than 29,000 affordable units due to owners electing to opt-out and make prepayments.¹⁷
- In 2003, an elderly or disabled SSI/SSP recipient would spend over half of his or her income for a studio apartment in 40 of California's 58 counties.¹⁸
- Over four out of ten of all California households are renters, and renters face the greatest affordability challenges. In 1997, nearly a quarter of the renter households in the State's metropolitan areas (1 million out of 4.2 million households) spent more than half of their income on rent.¹⁹
- Based on current Fair Market Rents, families relying on CalWORKs (the State's cash assistance program for poor families) pay over 80 percent of their grant toward housing in all California counties.²⁰ California's welfare recipients are also less likely to receive federal housing assistance than welfare recipients in other states. In 1997, only 13 percent of families receiving AFDC (Aid to Families with Dependent Children) received federal housing subsidies, compared to 23 percent for the nation as a whole. Among the 50 states, California ranks 49th in the share of welfare recipients receiving housing assistance.²¹
- California received fewer federal housing assistance dollars in 1999 for each individual living below the federal poverty level than all but one of the ten largest states. While the federal government spent, on average, \$286 on housing assistance for each impoverished person, California received only \$171 per impoverished person.²²

¹⁷ California Housing Partnership Corporation, June 2003.

¹⁸ *Locked Out: California's Affordable Housing Crisis*, California Budget Project, January 2004.

¹⁹ *Locked Out: California's Affordable Housing Crisis*, California Budget Project, May 2000

²⁰ *Locked Out: California's Affordable Housing Crisis*, California Budget Project, January 2004.

²¹ *Locked Out: California's Affordable Housing Crisis*, California Budget Project, May 2000.

²² Ibid